



LAURA N. CHICK
INSPECTOR GENERAL

STATE OF CALIFORNIA
OFFICE OF THE INSPECTOR GENERAL
AMERICAN RECOVERY ACT FUNDS

April 20, 2010

The Honorable Arnold Schwarzenegger
The Honorable Members of the California Legislature
State Capitol
Sacramento, CA 95814

Dear Governor Schwarzenegger and Members of the Legislature:

The Federal Recovery Act is providing significant dollars to local Workforce Investment Boards (WIB) for Summer Youth, Adult and Dislocated Worker Programs. Today I release my Office's reviews of Recovery Act spending by the City and County of San Francisco and City of Oakland WIBs. While we did not find any issues with San Francisco, our review of Oakland found problems that needed attention.

The Oakland WIB has received \$3,141,841 in stimulus funds and basically acts as a pass through to the Oakland Private Industry Council (OPIC) which serves as the administrator of the programs. My auditors found a lack of a valid contract, inadequate review of contractors' reimbursement requests, significant accounting issues and inflated job numbers.

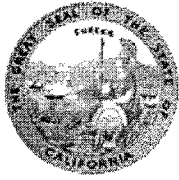
Since July of last year, the OPIC has been providing services and has been reimbursed without a valid contract as required. This is a repeat problem which was highlighted in the past by the state's Employment Development Department.

Some of the errors we found can be traced directly to the fact that the City of Oakland did not receive its regular Workforce Investment dollars in a timely way. They received their Recovery dollars first and began to spend these funds on non Recovery activities. From this initial misstep flowed several of the other problems which included: inflated job numbers, lack of transparency, and accounting mistakes.

The Oakland WIB and their providers are busy correcting these problems, but it is important to note that all the time and energy adjusting the books, costs money...Recovery Act dollars. One reason we want to surface these issues early is to share lessons learned with other recipients so they can avoid the same challenges.

Sincerely,

LAURA N. CHICK
Inspector General



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INSPECTOR GENERAL

STATE OF CALIFORNIA
OFFICE OF THE INSPECTOR GENERAL
AMERICAN RECOVERY ACT FUNDS

Transmitted via e-mail

April 20, 2010

Mr. Earl Johnson, Senior Policy Advisor to the Mayor
and Interim WIB Executive Director
City of Oakland Workforce Investment Board
One Frank Ogawa Plaza, 3rd Floor
Oakland, CA 94612

Dear Mr. Johnson:

Final Review Report—City of Oakland Workforce Investment Board

The State of California, Office of the Inspector General (IG), American Recovery and Reinvestment Act Funds (ARRA) reviewed the City of Oakland Workforce Investment Board's (WIB) ARRA funds received for the Workforce Investment Act (WIA) programs. The WIB commissioned the Oakland Private Industry Council (OPIC) as the System Administrator to provide the services for WIA programs. Although OPIC administers the program, the WIB is responsible for ensuring all ARRA funds are spent appropriately and in accordance with applicable laws and regulations.

Scope

The WIB was awarded ARRA funds totaling \$6,302,628. Of that amount, the WIB has received \$3,141,841 for the following federal WIA programs: ARRA Summer Youth Program, ARRA Adult Program, and the ARRA Dislocated Worker Program. As of the review date, no ARRA funds were requested or received for the Rapid Response Program.

The IG conducted a review of ARRA funds received and expended for the period February 17, 2009 through December 31, 2009. The review's objectives were to determine if the WIB properly accounted for and used ARRA funds in accordance with ARRA requirements, and applicable laws, and regulations.

The WIB's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and program requirements as well as evaluating the efficiency and effectiveness of the program. Unless identified during our review of ARRA funds, we did not assess the efficiency or effectiveness of program operations.

Methodology

Because the WIB acted only as the pass-through, the review was conducted at the Oakland Private Industry Council (OPIC). The OPIC's accounting records and supporting documents were reviewed to determine if ARRA funds were properly accounted for and expended. Costs allocated to various OPIC programs and the allocation method was reviewed for propriety and reasonableness. To determine whether revenues and expenditures complied with applicable laws and regulations, the following procedures were performed:

- Interviewed key personnel and reviewed applicable policies and procedures to gain an understanding of program-related internal controls.
- Reviewed participant files and contracts between OPIC and subcontractors.
- Reviewed revenues to determine if they were properly recorded and supported.
- Selected a sample of expenditures reported to determine whether they were:
 - Allowable
 - Program related
 - Incurred within the reporting period
 - Adequately supported
 - Properly recorded

Summary of Review

The federal Workforce Investment Act (WIA) offers a comprehensive range of workforce development activities through statewide and local organizations. Available workforce development activities provided in local communities can benefit job seekers, laid-off workers, youth, incumbent workers, new entrants to the workforce, veterans, persons with disabilities, and employers. The purpose of these activities is to promote an increase in the employment, job retention, earnings, and occupational skills by participants.

ARRA funds were received by the WIB and 100 percent of the funds received were passed through to OPIC. The amount of ARRA funds OPIC received was \$790,189 more than recorded ARRA expenses, representing 25 percent of the \$3,141,841 in ARRA funds distributed to OPIC. The WIB and OPIC claim that funds were used to pay for non-ARRA funded WIA program.

The review disclosed several significant issues: the lack of a valid contract, an arbitrary cash draw-down process, inadequate process for reviewing contractors' reimbursement requests, significant accounting errors, and incorrect reporting of jobs created.

Review Findings

No Valid Agreement Between the WIB and OPIC

Since July 1, 2009, OPIC has been providing services as the Systems Administrator over ARRA funds without a contract. The last signed and executed Memorandum of Understanding was for July 1, 2008 through June 30, 2009. The WIB continues to reimburse the OPIC for expenses claimed (including ARRA) despite the lack of a contract. The State of California, Employment Development Department (EDD) in their monitoring reports dated April 10, 2008 and August 22, 2008 also identified no valid contract as a finding. Without mutual expectations spelled out in a written contract, it opens the WIB

and the State up to additional risk and liability, and provides no legal recourse should OPIC not meet ARRA requirements.

OPIC's Cash Draw-Down of ARRA Funds is Arbitrary

The OPIC's cash draw down methodology is based on estimates rather than reimbursements for actual ARRA expenditures. This has resulted in significant higher draw downs than actual expenditures. For example, as of December 28, 2009 OPIC drew down \$980,026 for the ARRA Adult and ARRA Dislocated Worker Program. As of March 5, 2010, only \$24,372 had been expended on either program. Other ARRA draw downs could not be traced to actual expenditures because the expenditures recorded on the draw down relate to both ARRA and non-ARRA WIA expenses. In order to ensure money is spent properly, the cash draw down should match with the expenditures from the same funding source. If this doesn't happen, we cannot track what the money was spent for. This creates a lack of transparency with OPIC's accounting records.

OPIC explained that the 2009-2010 non-ARRA WIA funds to the City of Oakland and the WIB were delayed and not available; therefore, to continue operations they used the ARRA funds. Although the grant award letter and funding was released to the WIB in January 2010 by EDD, procedural issues at the City of Oakland caused further delays. The Oakland City Council's approval of the funding budget wasn't until February 16, 2010 and up-loading of the approved budget amounts into the Oakland account system led to the delays. The non-ARRA WIA funding was finally made available for drawn down in late March 2010.

The U.S. Department of Labor Training and Employment Guidance Letter No. 14-08 states that in utilizing ARRA funding, the workforce system must be guided by the principles of transparency and accountability, as well as timely expenditure and activity implementation. The guidance further states that the ARRA funds are to supplement and be spent concurrently with annual WIA/Wagner-Peyser funding and should not be used to replace funding currently dedicated to workforce development and summer jobs. The U.S. Department of Labor Annual Funding Agreement Addendum for ARRA states that grantees are advised that ARRA funds are intended to supplement, not supplant, existing WIA Title I State formula funds.

OPIC is Not Adequately Reviewing Contractors' Reimbursement Requests

OPIC is not adequately reviewing reimbursement requests submitted by its contractors to ensure all costs are eligible and supported prior to approving and making payments. IG staff reviewed 34 percent of claimed contractor expenditures and determined that \$43,651 of \$289,224 claimed (15 percent) were ineligible or lacked sufficient documentation. Additionally, there were unquantifiable questioned costs related to the contractors' allocation of rent and utilities to the ARRA program since justification for the percentages used to allocate costs were not provided. For example, 80 percent of the Watkins Memorial Church of God's rent was billed to the ARRA program for the period of June 2009.

The following examples were noted during our review:

- The Spanish Speaking Citizens Foundation (SSCF) was reimbursed for \$2,806 on fieldtrips to the Santa Cruz Beach Boardwalk, Waterworld USA, and Washington Park and food for the participants.
- Leadership Excellence did not provide adequate supporting documents to verify that \$15,368 in staff salaries and benefits was related to the ARRA program.
- The Alameda County Youth Development did not provide adequate supporting documents for expenditures of \$4,260, including \$1,205 in staff salaries and benefits and other expenditures of

\$3,055. Additionally, \$1,155 of bus passes purchased did not have support showing they were provided to participants in the ARRA program.

- The Alameda County Health Care Foundation did not provide adequate supporting documents for \$8,297 in expenditures for salaries (\$7,770) and bus passes (\$527).
- The Watkins Memorial Church of God did not provide adequate supporting documents for \$9,100 in expenditures for salaries (\$6,100), maintenance and repair costs (\$200), and office rent (\$2,800).

OPIC Overstated Jobs Created by 29

For the period ended December 31, 2009 OPIC reported 35.13 as the number of jobs created. Based on IG staff computation, OPIC should have reported only 5.9. The difference is a result of OPIC employees who provided services on the non-ARRA WIA Programs being included in the job calculation.

OPIC Improperly Recorded \$132,294 of ARRA Costs

OPIC improperly recorded the following costs to the ARRA Summer Youth Program:

- \$24,022 in administrative salaries was actually for non-ARRA WIA salaries
- \$7,160 in program salaries was actually for non-ARRA WIA salaries
- \$42,514 in accruals was actually for non-ARRA Summer Youth Program
- \$1,169 in accruals was actually for non-ARRA Adult Program
- \$41,970 in OPIC's rent expense
- \$1,200 (\$400 per month for 3 months) in car allowance for OPIC's Chief Executive Officer
- \$426 (\$142 per month for 3 months) in parking allowance for the OPIC's Chief Executive Officer
- \$4,267 in communication expenses
- \$2,764 for accounting software
- \$3,285 for memberships, conferences, and marketing cost

Also, we identified \$3,517 in program salaries that was miscoded to non-ARRA Adult Program when it actually was for the ARRA Summer Youth Program.

As stated in the Executive Office of the President's Office of Management and Budget (OMB), *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009* (M-09-15), "to maximize transparency of Recovery Act spending required by Congress and the Administration, agencies must not co-mingle Recovery Act funds with other funds." A similar finding was cited by EDD in their monitoring report dated August 22, 2008.

Quarterly Reports Did Not Agree With OPIC's Accounting Records

The quarterly report submitted to EDD for the period ended December 31, 2009, did not agree with OPIC's accounting records. An additional \$282,632 in ARRA Youth related expenses were included in the general ledger, but excluded from the quarterly report. Accurate and timely quarterly reporting is a term and condition of each ARRA award, and data submitted to EDD in each quarterly report are compiled and submitted to Federal agencies to provide information regarding the use of funds. OPIC's reporting of inaccurate data creates errors and omissions in the EDD data and therefore, could mislead the public.

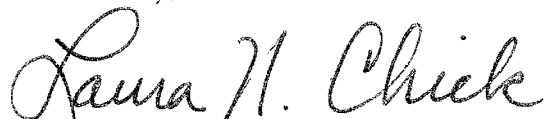
Conclusion

To allow for transparency and accountability of ARRA funds, the WIB should observe all federal and state directives to ensure that: ARRA funds are separately identified and recorded; ARRA funds are spent concurrently with annual WIA/Wagner-Peyser funding; and ARRA funds supplement, not supplant WIA/Wagner-Peyser funding. If the WIB plans to continue to use OPIC to administer the program, a written agreement should be executed. Finally, we recommend that the WIB more actively oversee the expenditure of ARRA funds, OPIC, and its subcontractors.

The City of Oakland's response has been included in this report. In accordance with the Inspector General's policy of increased transparency, the final report will be placed on our website, <http://www.inspectorgeneral.ca.gov>.

We appreciate the assistance and cooperation of the WIB and OPIC. If you have any questions regarding this report, please contact, Linda Ellis, Supervisor, at (916) 445-0115.

Sincerely,



LAURA N. CHICK
California Inspector General
American Recovery and Reinvestment Act Funds

cc: Mr. Ray Carlisle, Chairman, City of Oakland Workforce Investment Board
Ms. Gay Plair Cobb, Chief Executive Officer, Oakland Private Industry Council, Inc.
Ms. Bouapha Toommaly, Special Assistant, Boards and Commissions, Office of the Mayor
Ms. Pam Harris, Acting Director, Employment Development Department
Mr. Gregory Riggs, Deputy Director, Policy, Accountability, and Compliance Branch,
Employment Development Department



Workforce Investment Board
CITY OF OAKLAND

Reaching Business

April 8, 2010

Laura Chick
California Inspector General
American Recovery and Reinvestment Act Funds
1400 Tenth Street, Suite 100
Sacramento, CA 95814

Re: Response to the Office of the Inspector General American Recovery Act Funds Review of
City of Oakland Workforce Investment Board

VIA Email and Mail

Dear Ms. Chick:

I am providing you with the City of Oakland's response to the findings from the Inspector General's Office review of the City of Oakland Workforce Investment Board's (WIB)'s American Recovery and Reinvestment Act (ARRA) funds received for the Workforce Investment Act (WIA) programs. The review was for the WIA ARRA funds received and expended for February 17, 2009 to December 31, 2009. As a local workforce area, the City of Oakland serves as the recipient of WIA funds and contracts with the Oakland Private Industry Council (OPIC) to serve as the System Administrator for the WIA programs.

First and foremost, we take our duties to administer and monitor the use of all public funds, especially ARRA funds, very seriously. The City and our partners have and continue to engage in required oversight and monitoring to ensure public accountability and transparency. Indeed, we have been engaging in corrective actions prior to the review. The review has also included findings that are inaccurate and we are respectfully providing you with the needed clarification.

It is important to note that it is our understanding from the State Employment Development Department (EDD) that the ARRA WIA allocations were a supplement to the 2008-09 baseline Formula allocation and governed by the same rules. The intent of the ARRA funds is to provide additional resources within the existing system to respond to local needs. These directives are outlined in the Department of Labor's Training and Employment Guidance Letter (TEGL) number 14-08. The ARRA funds cannot be adequately reviewed separately and, instead, needs to be seen within the full context of the WIA funding streams. It is also our understanding from the State that the use of multiple funding streams to support the continuity of local services is not

unique. There is established precedent for this in the way the State channels funds to local workforce investment areas.

The approval of the WIB budget and allocation of the 2009-2010 WIA Formula funds to the City of Oakland and WIB were delayed. In order to continue the administration and operation of critical workforce development services in a time of record unemployment rates, the WIB, upon consultation with the State, utilized ARRA adult and dislocated worker funds for serving WIA Formula participants and programs. WIA ARRA funds were the only funds available to support both the WIA Formula and WIA ARRA expenses through December, 2009. As part of the plan discussed with the State, the WIB anticipated readjusting the funding streams once the WIA Formula funds were available for use. The 2009-2010 WIA Formula funds to the WIB were included in the State's Job Training Automation system in January 2010. All of the required adjustments to the appropriate funding streams are occurring. OPIC completed the formal general ledger adjusting entries during the months of January, February and a portion of March 2010. These completed actions directly address many of the findings.

The review raised concerns about the WIB's oversight of the WIA funds and recommended that the "WIB more actively oversee the expenditure of ARRA funds, OPIC, and its subcontractors." The City of Oakland has hired additional staff to effectively meet the oversight and monitoring requirements of WIA and ARRA funds.

The review also raised the need for a written agreement to be executed between the City and OPIC. A written agreement was in place upon the receipt of the ARRA WIA funds and expired in June 2009. The City, the WIB and OPIC have negotiated a new agreement that also required a public process. A new written agreement is now in place.

Of critical importance is that the WIB and its partners have utilized the ARRA WIA funds to expeditiously and effectively provide critical workforce development programs serving low-income residents, in keeping with the ARRA fund requirements. Some of the accomplishments, to date, include:

- Produced over 1,000 jobs for at-risk Oakland youth and prepared these youth for future employment through the Mayor's youth summer programs. Many of the youth who participated in the programs have stayed in school and are pursuing their educational and intellectual endeavors. Others have retained their jobs and advanced in their positions;
- Accommodated more than 79,000 visits to OPIC and its affiliate One-stop Career Centers between July 2009 and March 2010;
- Experienced significant increases in enrollments in Oakland's WIA-funded programs; and
- Successes were highlighted in media and federal reports.

These accomplishments required that the WIB, OPIC, and service providers, in an extremely short period of time, conduct procurements, provide all eligibility documentation of youth, monitor contracts, engage in data analysis and MIS reporting and other reporting requirements, and recruit, train, supervise, and provide case management to vulnerable youth.

The City of Oakland remains very appreciative of the efforts of the WIB, OPIC, and community partners in quickly pulling together vital programs to serve local workforce development needs.

The following are responses from the WIB and OPIC to the specific findings.

Finding 1: No Valid Agreement between the WIB and OPIC.

Response 1: As provided above, we have executed a written agreement regarding the OPIC's administration of WIA, including ARRA, funds and programs.

Finding 2: OPIC's Cash Draw-Downs of ARRA Funds is Arbitrary.

Response 2: The findings state that "OPIC's cash draw down methodology was based on estimates rather than reimbursement for **actual ARRA expenditures**". The draw-downs were not arbitrary and were based on actual expenditures incurred for both WIA ARRA and WIA Formula activities.

The findings also state that the draw-down methodology "has resulted in significant higher draw down than the actual ARRA expenditures" and that OPIC drew down \$980,026 for the ARRA Adult and Dislocated Worker programs. The review was of the draw-downs based on the ARRA recorded expenses only. The expenditures for the WIA Formula expenses that were a part of the draw-downs from the ARRA fund draws were not considered and therefore make for the appearance of **ARRA fund excess draw downs versus ARRA expenses**. As explained above, the ARRA funds were the only funds available for the 2009-2010 fiscal year for both ARRA and WIA Formula expenditures until January, 2010. The amount of \$980,026 as being for ARRA Adult and ARRA Dislocated Worker program draw-downs were the result of the amounts drawn from the ARRA funds for the WIA Formula Adult and Dislocated Worker expenditures.

This was done with the understanding that adjustments would be made for WIA Formula expenses out of the WIA ARRA expenses and the WIA ARRA funds would be reimbursed for the WIA Formula cash draw-downs made for those expenses. OPIC completed the formal general ledger adjusting entries during the months of January, February and a portion of March, 2010 and the City is in the process of correcting the ARRA fund draws for the WIA Formula fund program expenses so that the ARRA funds are reimbursed for the WIA Formula fund expenditures.

Finding 3: OPIC Not Adequately Reviewing Contractor's Reimbursement Requests

Response 3: OPIC has consistently applied established and acceptable invoice verification procedures in processing subcontractor's invoices. The procedures followed have been acceptable to federal, state, local and private auditors and monitors, without exception. OPIC has not had or been subject to any questioned and/or disallowed costs in the past regarding any audits/reviews relative to the processing and payment of subcontractor invoices. While complete desk audits of invoices (which include the requirement for subcontractors to send in the most minute source documentation for each item included in an invoice and for each invoice) might be required from certain subcontractors where there is a history of documentation problems.

However, it is not the most efficient or practical method of processing subcontractor payments. Therefore, summaries and calculations with certain documentation detail requested as deemed necessary or defined in the contract is used in processing the invoices. In addition to the documentation received, OPIC often makes various queries of subcontractors at the time of invoice processing to clear any ambiguous matters. Also, in conjunction with administering the ARRA Summer Program, OPIC used a worksite monitor and program coordinator to conduct on site visits to ensure that subcontractor program operations proceeded as planned and appropriate documentation relative to operations and expenses of the ARRA Summer Youth Program was available to support the purported activities and expenses.

The following are direct responses to the specific findings under this category.

Sub-Finding 3.a: Spanish Speaking Citizens Foundation (SSCF) – Fieldtrips

The review stated that the Spanish Speaking Citizens Foundation (SSCF) was inappropriately reimbursed for \$2,806 on fieldtrips to Santa Cruz Beach Boardwalk, Waterworld USA, and Washington Park and food for the participants.

Response 3.a: The fieldtrips were a part of the SSCF Summer Youth work experience training program design and the cost is allowable under OMB Circular A122, Attachment B.53.a. which defines the following “Training costs” as allowable:

“Costs of preparation and maintenance of a program of instruction including but not limited to on-the-job, classroom, and apprenticeship training designed to increase the vocational effectiveness of employees, including training materials...are allowable.”

The food costs are relevant to the Washington Park field trip and the remaining food costs were for refreshments and staff meetings as allowed under OMB Circular A122, Attachment B.29.a which states,

“Costs associated with the conduct of meetings and conferences include the cost of renting facilities, meals, speakers’ fees, and the like...”

Urban YMCA of the East Bay was a subcontractor of SSCF. The field trips and picnic were part of their proposed summer work experience program to:

1. Provide necessary training in conflict resolution and allow youth to experience these activities in a supportive and structured social environment. (Participants hailed from East Oakland, an area known for its violent gang activity.)
2. Participants were also provided the opportunity to establish positive relationships with staff in an effort to reduce feelings of mistrust for authority figures. Allowing the participants to experience his or her supervisor as a mentor and friend was an important instructional component of the work readiness portion of the program.
3. Participants were provided an opportunity to experience the value and benefits of working in collaboration as they participated in the various team building exercises that were woven throughout the fieldtrips.

The food costs incurred were for the Washington Park field trip.

SSCF provided refreshments/meals for the following events during the course of their program:

1. Job Fair – employers were invited to a job fair attended by all summer youth participants. Participants spent the time visiting with prospective employers, learning about the job opportunities.
2. Regular “check-in” meetings were held with the participants, prior to their respective report times at their assigned jobs. Refreshments were served to allow youth participants to go directly to their job assignments at the conclusion of the meetings.

Sub-Finding 3.b: Spanish Speaking Citizens Foundation (SSCF) – Work Shoes and Clothes

The review stated that SSCF purchased work shoes and clothes in the amount of \$1,774 for the participants on the last day of the contract and it is unclear why these items were not purchased at the beginning of the contract in order to utilize the benefit for the participants.

Response 3.b: The items in question were purchased for eight of the nine Summer Youth participants in the SEE Green Careers cohort of SSCF summer youth experience. Past experience revealed a trend of where participants slowly dropped out of the program after receiving quality work shoes and other work apparel. Awarding these items was included in the program plan and design as an incentive for completing the job training program. As such, OPIC considers them to be allowable under OMB Circular A122, Attachment B. 53. which states:

“Costs of preparation and maintenance of a program of instruction including but not limited to on-the-job, classroom, and apprenticeship training designed to increase the vocational effectiveness of employees, **including training material**. . . , are allowable.

Of the nine participants:

1. 3 continued in advanced training programs with other organizations
2. 1 secured part-time employment
3. 4 secured fulltime employment
4. 1 entered Missionary Training School

Sub-Finding 3.c: Peralta Foundation

The review stated that Peralta Foundation was reimbursed for \$4,216 in payroll taxes already claimed and reimbursed in a previous reimbursement request.

Response 3.c: This was an apparent oversight in the review since the \$4,216 was clearly reduced from the total amount of one of the invoices. We are resubmitting the paid invoices where one of which shows the amount in question was reduced (from check #004425). (Please see enclosures)✱

✱ Available upon request

Sub-Finding 3.d: Leadership Excellence

The auditor stated that Leadership Excellence did not provide adequate supporting documents to verify that \$15,368 in staff salaries and benefits was related to the ARRA program.

Response 3.d: As stated above, it was not the practice to conduct a desk audit in processing subcontractor invoices. The amount referred to was for a percentage (based on time devoted to ARRA Summer Activities) of employee's wages paid and did not include any fringe benefits. During the processing of the invoice we reviewed the subcontractor's payroll journals and checked the calculations of the position amounts. In addition, we verified via the site monitor and program coordinator that the time claimed by the subcontractor's staff appeared to be reasonable in view of the operation of the program. Based on our various queries during the invoice processing we were assured by the contractor that the percentages of time claimed were supportable. We have since requested and received the individual time sheets to support the amounts claimed.

Sub-Findings 3.e: Alameda County Youth Development (ACYD)-(OPIC Subcontractor); Alameda County Health Care Foundation (affiliate of ACYD); and Watkins Memorial Church of God (affiliate of ACYD)

Response to findings for above ACYD and Affiliates 3.e: OPIC has consistently applied established and acceptable verification procedures in processing subcontractor invoices. The documentation submitted by the subcontractor and our discussions at the time of invoice processing with the subcontractor and our program coordinator provided sufficient information to justify the reimbursement.

We have obtained additional responses and documents from ACYD and its affiliates to further document the amounts questioned. We are forwarding those responses and documentation with this response. (Please see enclosures)*

Finding 4: Shared Expenses Charged Solely to ARRA Programs.

Response 4: The \$53,912 amount listed were all Formula, and not shared, fund expenses. All listed amounts were part of the adjustments made to remove the WIA Formula fund expenses from the ARRA fund as explained above to reimburse the ARRA fund for draw-downs made for Formula fund expenses. OPIC completed the formal general ledger adjustments out of the ARRA fund during the months of January, February and a portion of March 2010. The ARRA funds are being reallocated accordingly.

Finding 5: OPIC Overstated Jobs Created by 29.

Response 5: This finding relates to the ARRA 1512 Data Report for the quarter October - December 31, 2009. The ARRA 1512 Data Report requests that the number of jobs funded by ARRA be expressed as "full time equivalents" (FTE) and relates to jobs created and/or retained through the use of those funds.

* Available upon request

As explained to the reviewers, allocation of the 2009-2010 WIA Formula funds to the City was delayed and the funds were not included in the JTA system until January 2010. The ARRA funds were the only funds available and were used to support the 29 FTE positions retained during the period October – December 2009. The 29 FTE jobs reported and referred to by the auditor as being overstated were jobs retained and funded by ARRA. Those jobs would not have been sustained during the quarter without the use of those ARRA funds.

Finding 6: OPIC Improperly Recorded \$78,382 of ARRA Costs.

Response 6: The \$78,382 for Formula expenses were charged to the ARRA fund. As explained above, the ARRA funds were the only funds available to support Oakland's entire workforce investment system until January 2010 when the Formula allocations became available in the State's JTA system.

OPIC completed the formal general ledger adjustments for the \$78,382 of Formula expenses out of the ARRA fund expenses in January, February and a portion of March 2010. Funds used for ARRA funds will be reimbursed and the amounts drawn-down from the Formula funds.

Finding 7: Unallowable Costs were Charged to ARRA.

Response 7: The \$4,545 of costs questioned were not advertisements as claimed; rather they were for outreach and recruitment to local employers as well as to youth to ensure performance objectives for the upcoming summer. These are allowable costs under OMB Circular A122, Attachment B.1.d.(2) which defines the following costs as allowable:

"Costs of communicating with the public and press pertaining to specific activities or accomplishments which result from performance of sponsored awards (these costs are considered necessary as part of the outreach effort for the sponsored awards)"

As explained to the reviewers, the "Stimulus Express" was an end of summer publication for the ARRA Summer Youth Program to highlight the work and accomplishments of youth participants and the organizations that served them --- specifically their success in providing academic learning, work readiness training and work experience placements to 1042 youth over the course of the summer. The Express served as outreach to employers about the benefits of providing work experience, internships, and job opportunities to low income Oakland youth. This function is critical to future WIA /ARRA summer employment efforts (i.e., in 2010) as well as to our year-round goal of maximizing the employment of youth in our community. Oakland has a record high "official" unemployment rate for adults (in excess of 17%) and an estimated 50% for minority youth. As a result of this publication, we have had employer inquiries about employing youth during the upcoming summer (2010.) 2. The publication also served as an outreach and recruitment vehicle to low-income youth to encourage participation in summer "earning and learning" programs, going forward (as Oakland reserved some of its ARRA funding for Summer 2010.)

Finding 8: Quarterly Reports Did Not Agree with OPIC's Accounting Records.

Response 8: OPIC inadvertently omitted some expenses accrued from June 30, 2009 in the cumulative expenses reported for the quarter ended December, 2009 for the ARRA Youth. The actual amount of those expenses totaled \$240,453. The amount stated in the review included \$1,169 for an adjustment that was made that reduced the \$282,632 amount and did not consider \$41,010 of accrued Summer Youth participant wages and statutory benefits as of June 30, 2009 that were included in the Report. We acknowledge the inadvertent omission of the \$240,453 from the cumulative amount as of December 2010 and will ensure that it is included in the March, 2010 quarterly report cumulative amount.

In conclusion, we greatly appreciate the opportunity to utilize ARRA funds for services critical to our local workforce development needs during this time of economic upheaval. We remain committed to providing effective oversight, monitoring, accountability, and transparency of all public funds, especially ARRA funds.

Please do not hesitate to contact me should you have any questions.

Sincerely yours,



Earl Johnson
Interim WIB Executive Director
City of Oakland Workforce Investment Board

The State of California, Office of the Inspector General (IG) of the American Recovery and Reinvestment Act (ARRA) funds issued a draft review report to the City of Oakland Workforce Investment Board (WIB) on March 26, 2010. We received the WIB's response to that report on April 8, 2010.

No Valid Agreement Between the WIB and OPIC

The WIB's response indicates that a valid agreement was in place with OPIC, but expired in June 2009. The response was silent regarding the lack of a contract from July 1, 2009 through June 30, 2010. In addition, the WIB indicates that the WIB has subsequently executed a written agreement specific to OPIC's administration over ARRA funds. Documentation provided by the WIB for the contract period of July 1, 2009 through June 30, 2010 was eventually signed and executed on April 9, 2010.

OPIC's Cash Draw-Downs of ARRA Funds is Arbitrary

The response emphasizes that ARRA funds cannot be separately reviewed and needs to be seen within the full context of the WIA funding streams. The WIB further maintains that ARRA funds were used to support WIA formula funds until January 2010. However, ARRA specific federal guidance, contract language, and state directives explicitly require that ARRA funds and expenditures are separately recorded, that ARRA funds are to supplement and be spent concurrently with annual WIA/Wagner-Peyser funding, and that ARRA funds should not be used to replace funding currently dedicated to workforce development and summer jobs.

OPIC is Not Adequately Reviewing Contractor's Reimbursement Requests

The WIB indicates that the items questioned in the report are allowable costs. We maintain that the Spanish Speaking Citizens Foundation's (SSCF) \$2,806 expenditure for the fieldtrips and food are unallowable under OMB Circular A-122 – Cost Principles for Non-profit Organizations – Attachment B (14) Entertainment Costs. This section specifically states that costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable. Additionally, OMB A-122 – Attachment A – General Principles states that to be allowable under an award, costs must be reasonable for the performance of the award and that the cost is of a type generally recognized as ordinary and necessary for the performance of the award.

Based on further review of our preliminary finding, it appears that the \$4,216 in payroll taxes for the Peralta Foundation were claimed in two invoices; however, OPIC reimbursed the costs in only one invoice. As a result, we have removed this amount from the questioned costs.

Furthermore, our review was to determine whether OPIC was adequately reviewing reimbursement requests and paying only allowable and supported costs; therefore, we did not go to OPIC's contractors to review their records, but relied upon OPIC to provide the documentation necessary to complete our review. Based on the documentation provided by OPIC, we determined that OPIC does not require their contractors to submit adequate supporting documentation prior to approving and making payments. As stated in their response, OPIC has subsequently obtained and provided to the IG staff additional documentation from contractors; however, as our finding states, the additional supporting documentation should have been obtained and reviewed for propriety prior to payment.

By establishing a policy and a process that OPIC adequately reviews expenditures and requires sufficient and adequate supporting documentation for requests for payment, OPIC and the WIB will ensure that accountability over ARRA funds are maintained.

Shared Expenses Charged Solely to ARRA Programs

The WIB's response to this finding indicated that the entire \$53,912 in expenses that we had identified as shared expenses were improperly recorded to the ARRA summer youth program. Based on our review of the WIB's response, we have included this finding in the *OPIC Improperly Recorded \$132,294 of ARRA Costs* finding.

OPIC Overstated Jobs Created by 29

Pursuant to OMB M-10-08, Section 5.9, a job paid for with ARRA funds, but ultimately funded by non-ARRA funds, should not be counted in the jobs calculation. These 29 jobs were initially funded with ARRA, as a loan for non-ARRA WIA Programs. The intent is that these will be hours ultimately not funded with ARRA funds.

OPIC Improperly Recorded \$132,294 of ARRA Costs

The WIB's response lacks the understanding and acknowledgement that non-ARRA expenditures must not be used to draw-down ARRA funds. ARRA specific federal guidance, contract language, and state directives explicitly require that ARRA funds and expenditures are separately recorded, that ARRA funds are to supplement and be spent concurrently with annual WIA/Wagner-Peyser funding, and that ARRA funds should not be used to replace funding currently dedicated to workforce development and summer jobs.

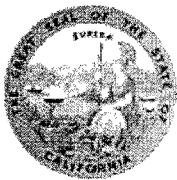
Although the WIB's response indicates that general ledger adjustments were completed subsequent to OPIC receiving funding for non-ARRA programs, corrective action should include insuring that ARRA funds are supplementing and not supplanting other funding streams. The effect of OPIC's general ledger adjustment process resulted in accounting errors, lack of transparency, and additional staff time.

Unallowable Costs were Charged to ARRA

Based on our review of the WIB's response and OMB 122 Appendix B (1) (d) – Public Relations, we have removed this from our report.

Quarterly Reports Did Not Agree with OPIC's Accounting Records

The WIB's response acknowledges that their quarterly reports contain omissions and indicates that they will implement corrective action in the March 2010 quarterly report.



LAURA N. CHICK
INSPECTOR GENERAL

STATE OF CALIFORNIA
OFFICE OF THE INSPECTOR GENERAL
AMERICAN RECOVERY ACT FUNDS

Transmitted via e-mail

April 20, 2010

Ms. Rhonda Simmons, Director of
Workforce Development
San Francisco Mayor's Office of Economic
and Workforce Development
50 Van Ness Avenue
San Francisco, CA 94102

Dear Ms. Simmons:

Final Review Report—City and County of San Francisco's Mayor's Office of Economic and Workforce Development

The State of California, Office of the Inspector General (Inspector General), American Recovery and Reinvestment Act Funds (ARRA) reviewed the City and County of San Francisco's Mayor's Office of Economic and Workforce Development's (SFWIB) ARRA funds received for the Workforce Investment Act (WIA) programs. As of the review date, the SFWIB was awarded ARRA funds totaling \$6,591,831 for the ARRA Summer Youth, ARRA Adult, ARRA Dislocated Worker, and ARRA Rapid Response programs.

The Inspector General reviewed \$877,635 related to the federal ARRA Summer Youth Employment WIA program for the period February 17, 2009 through December 31, 2009. As of the review date, no ARRA funds were requested or received for the ARRA Adult, ARRA Dislocated Worker, or ARRA Rapid Response Programs.

The review's objectives were to determine whether:

- Revenues and expenditures complied with applicable laws, regulations, and grant requirements.
- ARRA funds were properly expended and accounted for.
- The project met the intended outcomes and outputs.
- The number of jobs created/retained were adequately supported and reported.

The results are based on our review of the grant agreement, supporting documentation provided, and interviews with staff directly responsible for administering ARRA funds. Since there were no review findings or issues requiring a response, we are issuing the report as final.

In accordance with the Inspector General's policy of increased transparency, this report will be placed on our website, <http://www.inspectorgeneral.ca.gov>.

We appreciate the assistance and cooperation of the SFWIB. If you have any questions regarding this report, please contact, Linda Ellis, Audit Supervisor, at (916) 322-3003.

Sincerely,

A handwritten signature in cursive script that reads "Laura N. Chick". The signature is written in dark ink and is positioned above the printed name.

Laura N. Chick, Inspector General
State of California, American Recovery and Reinvestment Act Funds

cc: Mr. Marc Majors, Workforce Development Manager San Francisco Mayor's Office of Economic and Workforce Development
Ms. Amy Wallace, Deputy Director of Workforce Development San Francisco Mayor's Office of Economic and Workforce Development
Ms. Pam Harris, Acting Director, Employment Development Department
Mr. Gregory Riggs, Deputy Director, Policy, Accountability and Compliance Branch
Tonia Lediju, Office of the Controller, City Services Auditor Division, City and County of San Francisco
Helen Storrs, Audit Manager, City and County of San Francisco